

104TH CONGRESS
1ST SESSION

S. 112

To amend the Internal Revenue Code of 1986 with respect to the treatment of certain amounts received by a cooperative telephone company.

IN THE SENATE OF THE UNITED STATES

JANUARY 4, 1995

Mr. DASCHLE (for himself, Mr. GRASSLEY, Mr. HARKIN, Mr. CONRAD, and Mr. DORGAN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 with respect to the treatment of certain amounts received by a cooperative telephone company.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TREATMENT OF CERTAIN AMOUNTS RECEIVED**

4 **BY A COOPERATIVE TELEPHONE COMPANY.**

5 (a) NONMEMBER INCOME.—

6 (1) IN GENERAL.—Paragraph (12) of section
7 501(c) of the Internal Revenue Code of 1986 (relat-
8 ing to list of exempt organizations) is amended by
9 adding at the end the following new subparagraph:

1 “(E) In the case of a mutual or coopera-
 2 tive telephone company (hereafter in this sub-
 3 paragraph referred to as the ‘cooperative’), 50
 4 percent of the income received or accrued di-
 5 rectly or indirectly from a nonmember telephone
 6 company for the performance of communication
 7 services by the cooperative shall be treated for
 8 purposes of subparagraph (A) as collected from
 9 members of the cooperative for the sole purpose
 10 of meeting the losses and expenses of the coop-
 11 erative.”

12 (2) CERTAIN BILLING AND COLLECTION SERV-
 13 ICE FEES NOT TAKEN INTO ACCOUNT.—Subpara-
 14 graph (B) of section 501(c)(12) of such Code is
 15 amended by striking “or” at the end of clause (iii),
 16 by striking the period at the end of clause (iv) and
 17 inserting “, or”, and by adding at the end the fol-
 18 lowing new clause:

19 “(v) from billing and collection serv-
 20 ices performed for a nonmember telephone
 21 company.”

22 (3) CONFORMING AMENDMENT.—Clause (i) of
 23 section 501(c)(12)(B) of such Code is amended by
 24 inserting before the comma at the end thereof “,
 25 other than income described in subparagraph (E)”.

1 (4) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to amounts received or
3 accrued after December 31, 1994.

4 (5) NO INFERENCE AS TO UNRELATED BUSI-
5 NESS INCOME TREATMENT OF BILLING AND COL-
6 LECTION SERVICE FEES.—Nothing in the amend-
7 ments made by this subsection shall be construed to
8 indicate the proper treatment of billing and collec-
9 tion service fees under part III of subchapter F of
10 chapter 1 of the Internal Revenue Code of 1986 (re-
11 lating to taxation of business income of certain ex-
12 empt organizations).

13 (b) TREATMENT OF CERTAIN INVESTMENT INCOME
14 OF MUTUAL OR COOPERATIVE TELEPHONE COMPA-
15 NIES.—

16 (1) IN GENERAL.—Paragraph (12) of section
17 501(c) of such Code (relating to list of exempt orga-
18 nizations) is amended by adding at the end the fol-
19 lowing new subparagraph:

20 “(F) In the case of a mutual or coopera-
21 tive telephone company, subparagraph (A) shall
22 be applied without taking into account reserve
23 income (as defined in section 512(d)(2)) if such
24 income, when added to other income not col-
25 lected from members for the sole purpose of

1 meeting losses and expenses, does not exceed 35
2 percent of the company's total income. For the
3 purposes of the preceding sentence, income re-
4 ferred to in subparagraph (B) shall not be
5 taken into account."

6 (2) PORTION OF INVESTMENT INCOME SUBJECT
7 TO UNRELATED BUSINESS INCOME TAX.—Section
8 512 of such Code is amended by adding at the end
9 the following new subsection:

10 "(d) INVESTMENT INCOME OF CERTAIN MUTUAL OR
11 COOPERATIVE TELEPHONE COMPANIES.—

12 "(1) IN GENERAL.—In determining the unre-
13 lated business taxable income of a mutual or cooper-
14 ative telephone company described in section
15 501(c)(12)—

16 "(A) there shall be included, as an item of
17 gross income derived from an unrelated trade
18 or business, reserve income to the extent such
19 reserve income, when added to other income not
20 collected from members for the sole purpose of
21 meeting losses and expenses, exceeds 15 percent
22 of the company's total income, and

23 "(B) there shall be allowed all deductions
24 directly connected with the portion of the re-
25 serve income which is so included.

1 For purposes of the preceding sentence, income re-
2 ferred to in section 501(c)(12)(B) shall not be taken
3 into account.

4 “(2) RESERVE INCOME.—For purposes of para-
5 graph (1), the term ‘reserve income’ means in-
6 come—

7 “(A) which would (but for this subsection)
8 be excluded under subsection (b), and

9 “(B) which is derived from assets set aside
10 for the repair or replacement of telephone sys-
11 tem facilities of such company.”

12 (3) EFFECTIVE DATE.—The amendments made
13 by this subsection shall apply to amounts received or
14 accrued after December 31, 1994.

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